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IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE:

ALTA MESA RESOURCES, Civil Action No.
INC. SECURITIES 4:19-cv-00957
LITIGATION

ALYESKA MASTER FUND,
L.P., ALYESKA MASTER
FUND 2, L.P., AND
ALYESKA MASTER FUND 3,
L.P.,

Plaintiffs,

v.

Case No.
4:22-cv-01189

ALTA MESA RESOURCES,
INC., f/k/a SILVER RUN
ACQUISITION CORPORATION
II; RIVERSTONE HOLDINGS,
LLC; ARM ENERGY
HOLDINGS, LLC; BAYOU
CITY ENERGY MANAGEMENT,
LLC; HPS INVESTMENT
PARTNERS, LLC; JAMES T.
HACKETT; HARLAN H.
CHAPPELLE; WILLIAM
GUTERMUTH; JEFFREY H.
TEPPER; DIANA J.
WALTERS; MICHAEL E.
ELLIS; RONALD SMITH; DON
DIMITRIEVICH; PIERRE F.
LAPEYRE, JR.; DAVID M.
LEUSCHEN; WILLIAM W.
McMULLEN; DONALD
SINCLAIR; STEPHEN COATS;
and THOMAS J. WALKER,

Defendants.

REMOTE VIDEOTAPED DEPOSITION OF
HAROLD E. McGOWEN III
November 13, 2023

8:35 a.m. Central

Deanna Amore - CRR, RPR, CSR - 084-003999

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1 A. Yes.

2 Q. So when you wrote this report, at the time
3 it was your opinion that Alta Mesa overdrilled its
4 acreage by placing too many wells in a section?

5 A. Well, ultimately, yes.

6 Q. How many wells too many per section did
7 they drill?

8 A. I think that would depend on the section.

9 Q. How many sections did they overdrill?

10 A. I don't have an exact number available.
11 I know that they deployed an enormous amount of
12 capital very quickly and that the ultimate recovery
13 per well on child wells was dropping rapidly.

14 Q. I'm trying to understand your opinion,
15 they placed too many wells in a section. How many
16 was too many?

17 A. So are you saying that -- is this a
18 hypothetical section or is this every section?

19 Q. You said "too many."

20 What do you mean by too many?

21 How many was too many?

22 A. Too many is when you begin to destroy
23 capital and you're destroying value by drilling too
24 many wells.

25 Q. So how many wells were too many? How many

1 extra did they drill? Do you have an opinion on
2 that?

3 A. It would depend on the section and where
4 the section was located.

5 Q. Okay. Then in which -- in which sections
6 did they drill too many and by how many?

7 MR. BRODEUR: Objection.

8 THE WITNESS: Well, there's a number of plots
9 in the data that show the decrease in net present
10 value is they reached a certain point. Are we
11 talking on average?

12 BY MS. GRAGERT:

13 Q. Sir, it's your opinion. You say they
14 placed too many wells in a section.

15 What did they do wrong?

16 What is too many wells?

17 A. Too many wells is when you begin to
18 destroy value as opposed to adding value.

19 Q. How many wells is too many wells?

20 MR. BRODEUR: Objection. Asked and answered.

21 THE WITNESS: I believe I've already answered
22 the question. You can't tie that to a -- if you're
23 not tying it to specific data, I can't really
24 answer that question.

25

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1 Q. And once they've gone through that
2 process, they would then know whether or not they
3 had drilled too many wells?

4 A. That would give them an indicator for that
5 particular rock with those characteristics, and you
6 have variable rock across the position. So you
7 can't apply that to every single section. You
8 would have to incrementally test your hypothesis.

9 Q. So when you -- your opinion in 13(a), when
10 you say they "placed too many wells in a section,"
11 you don't have an opinion on how many actual extra
12 wells they drilled or in what sections they drilled
13 those?

14 A. I know that, on average, they began to see
15 a degradation in EUR as they increased the number
16 of wells per section on average, and there is data
17 in the record that shows that. There's
18 documentation to that effect. I don't recall the
19 exact documents, but I can visualize the plot in my
20 head.

21 Q. Is there -- an EUR can degrade, but a well
22 can still be economical. Would you agree to a
23 certain extent?

24 A. To a certain extent.

25 Q. Is there an average number of wells that

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1 A. There may have been.

2 Q. Do you know how far apart each of those
3 benches were?

4 A. Well, it depends on where you draw the
5 line, I suppose, but it's hundreds of feet.

6 Q. Do you know how many hundreds of feet?

7 A. Well, if they are abutting each other,
8 it's zero, if you are saying you're fracking an
9 entire bench. If it -- if there's shale between
10 you that's supposed to be your frac barrier, that
11 should be at least 35 feet for a good frac barrier.

12 Q. Is it your -- it's your opinion that
13 microseismic tests suggested that Alta Mesa's
14 acreage would not support 12 wells per section?

15 A. My opinion is that was a red flag that
16 should have informed the process, caused them to do
17 more testing, and slow down the pace of the capital
18 deployment.

19 Q. Did you look at any -- your report refers
20 to one microseismic study. Did you look at any
21 other microseismic test results?

22 A. I didn't have access to any others.

23 Q. And your opinion is that report created
24 that red flag that you mentioned?

25 A. Well, that in combination with statements

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1 A. That's part of it, and then part of it is
2 some of the email traffic internally where folks
3 talked about they didn't really think it made
4 sense, some of the employees.

5 Q. Let's take a look at paragraph 68.

6 Well, you say that it's crucial to balance
7 a well's natural energy with the need for
8 artificial lift. Did you assess that balance for
9 any Alta Mesa well?

10 A. No.

11 Q. Would you agree that you should not
12 install -- or an operator should not install an
13 ESP -- actually, let me ask it differently.

14 Is it a good course of action to install
15 an ESP after you have some data on how the well is
16 doing?

17 A. Yes, you need some information on the
18 inflow performance of the well to help you decide
19 on your artificial lift.

20 Q. Are you aware that Alta Mesa waited until
21 the spring of 2018 before it began to install ESPs?

22 A. That may be true. There's a little more
23 to it than just the time because you have to
24 establish -- you really need to establish an inflow
25 performance curve which requires some specific

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1 The very last sentence says "This is why
2 it is not surprising that implementing ESPs did not
3 significantly increase ultimate recovery for
4 Alta Mesa."

5 Did you conduct any analysis to determine
6 how much ESPs affected Alta Mesa's ultimate
7 recovery?

8 A. Well, there's a PowerPoint I looked at
9 that has a plot that showed some ESP performance
10 data.

11 Q. Do you know -- do you know which
12 PowerPoint that is?

13 A. Yes, it's -- let's see. I believe it's
14 Bates AMR-SDTX00050063.

15 Q. Did you conduct any of your own analysis
16 to determine what the difference in ultimate
17 recovery was due to the use of ESPs?

18 A. No.

19 Q. Did you -- other than what's in this
20 PowerPoint, did you look at the result of any
21 specific wells that use ESP?

22 A. No.

23 Q. Is it your opinion that Alta Mesa should
24 have stayed with gas lifts instead of installing
25 ESPs?

1 MR. BRODEUR: Objection.

2 THE WITNESS: I just thought it was unusual
3 that this was a top-down requirement to install
4 ESPs when normally that's an artificial lift
5 recommendation that normally comes from the bottom
6 up from production engineers that are most familiar
7 with the wells. So I really felt like it was --
8 would have been more appropriate just to leave the
9 gas lift in place.

10 And there's a number of emails I reviewed
11 where some of the staff that were responsible for
12 installing these systems were dubious that this was
13 an economic proposition.

14 BY MS. GRAGERT:

15 Q. Is it your opinion that the ESPs should
16 not have been installed or simply that the process
17 for deciding to install them was less than it
18 should have been?

19 MR. BRODEUR: Objection.

20 THE WITNESS: I'm fundamentally focused on
21 reasonableness of decisions at the time and not
22 evaluating the ultimate result. So -- because
23 I think that would be hindsight. So I've tried to
24 focus on what they knew at the time and the
25 decisions that they made at the time.

1 BY MS. GRAGERT:

2 Q. So it's possible that installing ESPs were
3 ultimately the correct decision?

4 MR. BRODEUR: Objection.

5 THE WITNESS: It's possible. That's right.
6 I didn't examine the full cycle economics of
7 running those. I was -- again, I was focused on
8 reasonableness and assumptions. That's my scope.

9 BY MS. GRAGERT:

10 Q. Who do you believe or how do you believe
11 Alta Mesa made the decision to install ESPs?

12 A. Well, I just have to kind of go with some
13 of the language in the emails. So, for example,
14 there's an email where they talk about chasing --
15 chasing production, which I assume means that
16 they're trying to hit their production targets. So
17 that sounds like that was the genesis of the
18 decision to try to boost production to meet their
19 production targets.

20 Q. And that's a conclusion you reached from
21 reading that email?

22 A. Yes.

23 Q. Do you know who was driving the decision
24 to install ESPs?

25 A. My recollection is I think it may have

1 come from Mr. Chappelle, again, based on the email
2 traffic.

3 Q. Do you know if anybody else was supporting
4 the decision to move to ESPs?

5 A. I don't know if there was anybody else
6 that was supportive.

7 Q. Do you know who was involved in the
8 decision-making process?

9 A. Let's see if I can track this down a
10 little bit.

11 I see an email from Scott Grant to
12 Hal Chappelle, and he talks about the ESPs and some
13 skepticism about whether he thought that was going
14 to work or not.

15 And then on that same email chain, there's
16 quite a few folks on there. There's -- let's see,
17 I guess, yeah, that's just how and Scott and
18 Tim Turner --

19 Q. Which document are you looking at?

20 A. This one is exhibit -- this is 0006632.

21 Q. Okay. Are you aware of all individuals
22 involved in the decision to install ESPs?

23 A. No, I don't know everybody that was
24 involved.

25 Q. Are you aware of what information the

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